REPORT ON EXAMINATION

OF THE

CRUM & FORSTER INDEMNITY COMPANY

AS OF

DECEMBER 31, 2004

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2004 of the

CRUM & FORSTER INDEMNITY COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 19 JUNE 2006

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 19TH DAY OF JUNE 2006.

Matt Denn

Insurance Commissioner

REPORT ON EXAMINATION

OF THE

CRUM & FORSTER INDEMNITY COMPANY

AS OF

December 31, 2004

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 19TH Day of JUNE 2006.

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SALUTATION

March 1, 2006

Honorable Alfred W. Gross, Chairman
Financial Condition Subcommittee, NAIC
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Kansas City, Missouri 64108-2662

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Secretary Western Zone
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Honorable Matthew P. Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard, Suite 100
Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 5.004, an examination has been made of the affairs, financial condition and management of

CRUM & FORSTER INDEMNITY COMPANY

hereinafter referred to as "Company" incorporated under the laws of the State of Delaware. The examination was conducted at the main administrative office of the Company located at 305 Madison Avenue, Morristown, New Jersey. Service of process address is 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. A pooled examination of the Company was conducted concurrently with that of its affiliates, United States Fire Insurance Company (USF), a Delaware Company, The North River Insurance Company (NRIC), a New Jersey Company and Crum and Forster Insurance Company (CFInsco), a New Jersey Company. Separate reports of examination were filed for each company.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination of the Company was conducted by the State of New York, covering the period January 1, 1997 to December 31, 2000. The Company redomiciled to the State of Delaware, effective December 31, 2003. The current examination of the Company covered the period from January 1, 2001, through December 31, 2004, and consisted of a general survey of the Company's business policies and practices; management and any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed to the extent deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The general procedure of the examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook as adopted by the Delaware Insurance Department and generally accepted statutory insurance examination standards.

In addition to items noted in this report, the following topics were reviewed without exception and are included in the workpapers of this examination:

Fidelity Bond and Other Corporate Insurance
Corporate Records
Employees and Agents Welfare
NAIC Ratios
Legal Actions
Regulatory Agency Correspondence
Schedule of Examination Changes
All asset and liability items not mentioned
Subsequent Events

Workpapers prepared by the Company's external accounting firm, PricewaterhouseCoopers, (PwC) New York, New York, in connection with their annual audit, were reviewed and relied upon to the extent possible.

INS Services, Inc. was retained by the Delaware Insurance Department to conduct a review of the overall risks related to information system controls.

HISTORY

The Company was incorporated under the laws of New York on December 2, 1987, as Finmar Reinsurance Corporation. It commenced business on December 31, 1987. On June 12, 1995, Premier Insurance Company merged with Finmar Reinsurance Corporation, with Finmar Reinsurance Corporation as the surviving corporation. Effective the same date, Finmar Reinsurance Corporation changed its name to Crum & Forster Indemnity Company.

Effective December 31, 2003, Crum & Forster Indemnity Company, a New York domiciled company, was merged with and into Crum & Forster Indemnity Company, a Delaware domiciled property and casualty insurance company, formerly known as BNM Indemnity Company. During 2003 BNM Indemnity Company was incorporated in Delaware as a wholly owned subsidary of Crum & Forster Indemnity Company. In connection with the merger, BNM Indemnity Company's name was changed to Crum & Forster Indemnity Company and became the wholly owned subsidiary of Crum & Forster Holding Inc., which is a wholly owned subsidiary of Crum & Forster Holdings Corp., a Delaware corporation (Holdings). The Company redomiciled to the State of Delaware effective December 31, 2003.

CAPITALIZATION

At December 31, 2004, the Company had 100,000 common shares authorized with a par value of $35 per share, of which all shares were issued and outstanding. The schedule below shows the changes in the Company's capital and surplus from the previous examination to the current examination.

	Special Surplus Funds (2)	**Common Capital Stock**	**Gross Paid – in and Contributed**	**Unassigned Surplus**	**Total**
12/31/00	$3,543,786	$3,500,000	$2,750,000	$(699,619)	$9,094,167
Operations (1)					
2001 Operation	3,126,944			(3,578,328)	(451,384)
2002 Operations	65,000			818,859	883,859
2003 Operations	(1,729,591)			1,911,825	182,234
2004 Operations	628,369			(466,004)	162,365
12/31/04	**$5,634,508**	**$3,500,000**	**$2,750,000**	**$(2,013,267)**	**$9,871,241**

(1) Operations is defined as: Net income, net unrealized capital gains or loss, change in net unrealized foreign exchange capital gain or loss, change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, cumulative effect of changes in accounting principles and aggregate write-ins for gains and losses in surplus.

(2) The change in special surplus is due to retroactive reinsurance that is required to be accounted for as a write-in item under SSAP No. 62, see reinsurance and notes to the financial statements for more information.

No dividends were paid to the shareholder during the examination period.

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and By-Laws, all corporate powers and its business property and affairs are managed by or under the direction of its Board of Directors. The Board shall consist of a minimum of three members and subject to a maximum of seven members.

The Board of Directors at December 31, 2004, was comprised of three members, each elected or appointed in accordance with Company By-Laws. Each Director shall hold office until his successor is elected and qualified, or until earlier resignation or removal.

The members of the Board of Directors serving as of December 31, 2004, were as follows:

Director's Name	**Principal Business Affiliation**
Nikolas Antonopoulos, Chairman	Crum & Forster Holdings Corp.
Joseph Francis Braunstein, Jr.	Crum & Forster Holding Inc.
Mary Jane Robertson	Crum & Forster Holdings Corp.

The Company's By-Laws provide for the Board, by resolution or resolutions passed by a majority of the whole Board, to designate one or more committees, each committee to consist of three or more directors of the corporation. The board may also designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee.

The Company had the following active committee as of December 31, 2004: Executive Committee. The Board members serving on the Executive Committee were as follows:

Nikolos Antonopoulos	Joseph F. Braunstein, Jr.	Mary Jane Robertson

The By-Laws of the Company state the principal officers of the corporation shall be a Chairman of the Board of Directors, a Chief Executive Officer, a President, a Secretary, a Treasurer, one or more Vice-Presidents, one or more Assistant Secretaries and one or more Assistant Treasurers, one or more Assistant Vice Presidents, and such other officers as the Board of Directors from time to time may determine.

At December 31, 2004, the Company's principal officers and their respective titles were as follows:

Officer	Title
Nikolas Antonopoulos	Chairman of the Board & CEO
Joseph F. Braunstein, Jr.	President
Mary Jane Robertson	Senior Executive Vice President, Treasurer & CFO
Valerie J. Gasparik	Vice President & Secretary
Peter J. Daly	Senior Vice President
Donald R. Fischer	Senior Vice President
John J. French	Senior Vice President
Dennis J. Hammer	Senior Vice President & Controller
Mary J. Hughes	Senior Vice President
Paul Kush	Senior Vice President
Daniel G. Meyer	Senior Vice President
Kim E. Piersol	Senior Vice President

The minutes of the meetings of the Stockholder and Board of Directors, which were held during the period of examination, were read and noted. Attendance at meetings, election of Directors and Officers and approval of investment transactions were also noted.

Inspection of Company files indicated that ethics statement/conflict of interest affidavits were distributed, completed and returned by all employees at the assistant secretary level or above for the examination period.

During our review for Compliance with Section 4919 of the Delaware Insurance Code, it was noted that the Company properly reported changes in directors and principal officers after re-domesticating from New York to Delaware.

AGREEMENTS

Service Agreements

Administrative Services Agreement

Effective January 1, 1993, the Company entered into an administrative services agreement (Amendment dated June 12, 1995) with USF. USF provides all administrative services such as underwriting, claims handling, reinsurance and premium collections on behalf of the Company. Operating expenses incurred in the performance of services are allocated in accordance with SSAP No. 70. The Company is charged its respective share of operating expenses. Expenses allocated under this agreement in 2004 were 1% or approximately $1,716,000.

Investment Agreement

Effective October 1, 2002, the Company entered into an investment management and administrative services agreement with Hamblin Watsa Investment Counsel Ltd. (Hamblin Watsa) and the Company's ultimate parent, Fairfax Financial Holdings Limited (FFH), to provide various investment management services to the Company. The agreement authorizes Hamblin Watsa to supervise and direct all investments and to exercise whatever powers the Company may possess with respect to its invested assets. Investment transactions will be in accordance with investment objectives of the Company and subject to restrictions established by the Company, as communicated to Hamblin Watsa in writing from time to time. Subject to these limitations, Hamblin Watsa may buy, sell, exchange, convert and otherwise trade in and engage in investment transactions of any nature whatsoever involving any stocks, bonds, commercial paper, money market instruments and other securities and assets when it deems appropriate and without prior consultation with the Company. The Company's allocated investment management fees for 2004 amounted to $86,000.

Master Repurchase Agreement

Effective July 1, 2000, the Company entered into a master repurchase agreement with FFH. The agreement provides for the repurchase of securities that are transferred to FFH from time to time in order to provide liquidity in the event that the Company is required to pay claims or other corporate obligations, subject to an aggregate limitation for USF and NRIC of $100 million and $5 million for the Company and CFInsco. Under the agreement the Company is obligated to repurchase from FFH, securities that are transferred for this purpose before the end of each calendar year in which the original purchase took place at a price equal to the amount initially raised from their sale plus the stated interest rate for each security pursuant to the initial sale. During the time that such securities are transferred to FFH, the Company is entitled to receive income payable on such securities. There were no transactions under these agreements during 2004.

Commutation and Release Agreement

Effective December 31, 2003, the Company entered into a commutation and release agreement, along with USF, Seneca Insurance Company, Inc., CFInsco, NRIC, Crum & Forster Underwriters Co. of Ohio, Crum & Forster Specialty Insurance Company, Seneca Specialty Insurance Company (collectively hereafter the "Reinsured"), and nSpire Re Limited (hereafter the "Reinsurer"). The Reinsured and Reinsurer desired to fully and finally settle and commute their respective past, present and future obligations and liabilities, known and unknown, associated with accident year 2001 of the aggregate stop-loss agreement.

TIG Service Agreement

Effective January 1, 2000, the Company entered into a Service Agreement with TIG Insurance Company (TIG). TIG provides certain services relating to the underwriting, issuance and delivery of policies, and handling of claims in the state of Hawaii. TIG is reimbursed for expenses budgeted and agreed upon for a year and paid quarterly (at the beginning of the quarter). Amounts incurred by the Company for services provided by TIG under this agreement in 2004 were $1,000.

Tax Allocation Agreement

Effective January 1, 2000, the Company entered into a tax allocation agreement with Parent along with certain of its affiliates. Parent, the Company and affiliates constitute an affiliated group and have elected to file a consolidated return under the provisions of section 1501 of the Internal Revenue Code of 1986. Pursuant to the terms of the tax allocation agreement, no party will be required to pay more in taxes nor receive a lesser payment of a refund than it would have paid or received if it computed its taxes independently and filed a separate tax return. Additionally, the Company has an enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

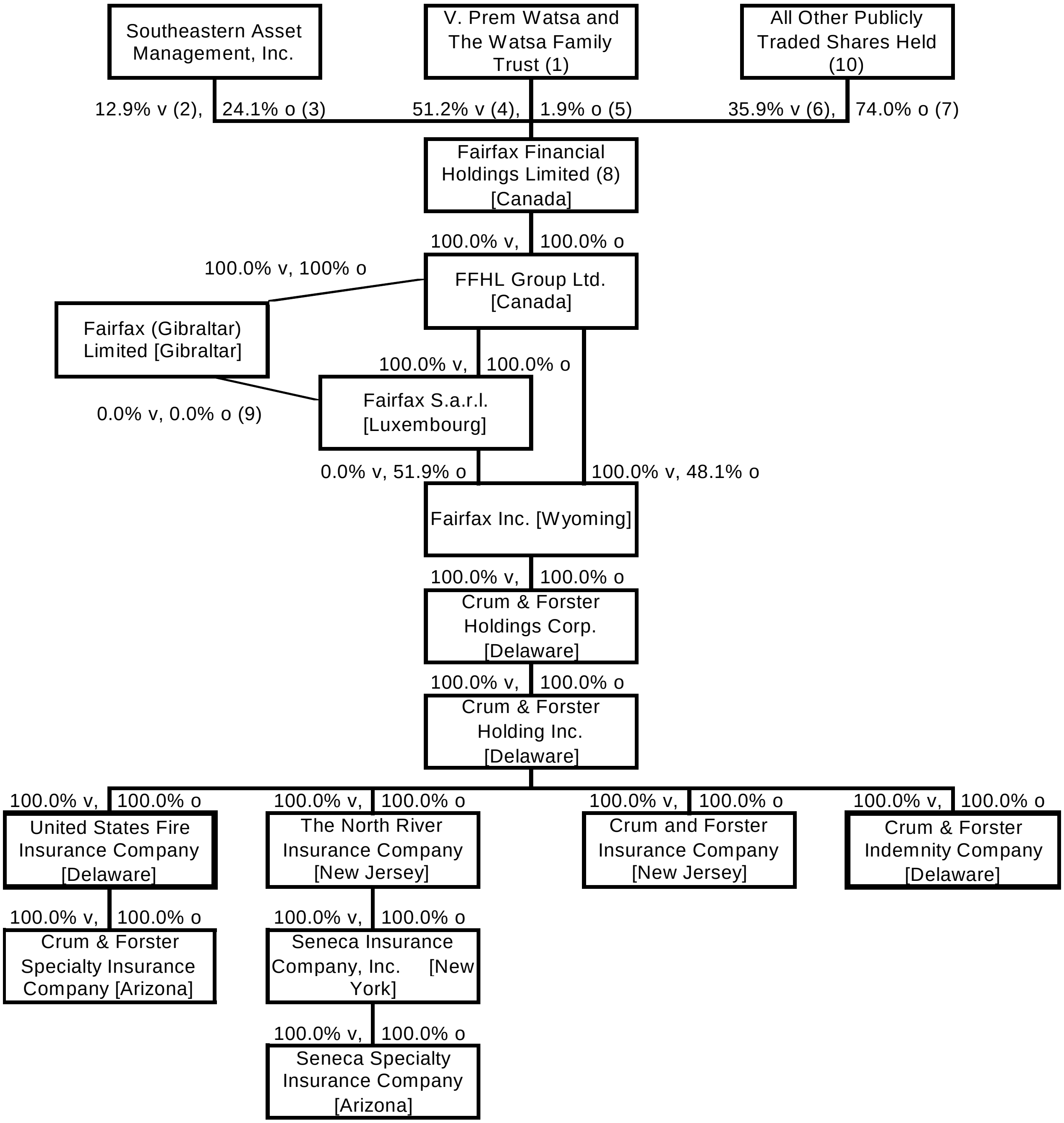
INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined under Title 18, Chapter 50, “Insurance Holding Companies” of the Delaware Insurance Code. Holding

Company registration statements were properly filed by the Company with the Delaware Insurance Department.

All of the common stock is owned by Crum & Forster Holding Inc., a Delaware company. The ultimate controlling entity of the holding company system is FFH. FFH's stock is traded on the Canadian Stock Exchange under the symbol "FFH". As of December 31, 2004, FFH reported approximately $26.33 billion in assets and $3.2 billion in capital and surplus on a consolidated GAAP basis.

The following organizational chart of which the Company is a part, illustrates the identities and relationships between its parent, affiliates and subsidiaries as of December 31, 2004.



The below notes 1 through 10 were discerned through the examination and more fully describe ownership and voting percentages throughout the Holding Company:

v = voting control
o = ownership control

(1) through voting and ownership control, both directly and indirectly, of the following individual and entities: Mr. V. Prem Watsa, 1109519 Ontario Limited, 810679 Ontario Limited and The Sixty Two Investment Company Limited
(2) calculated as 3,974,780 votes (3,974,780 subordinate common shares held) divided by 30,822,759 votes [See note (8)]
(3) calculated as 3,974,780 subordinate common shares held / 15,342,759 total subordinate common shares times $1,781,800,000 / $1,918,400,000 [See note (8)]
(4) calculated as 0.8% through V. Prem Watsa and 50.4% through The Watsa Family Trust and the three entities described in (1). The 0.8% is calculated as 159,735 subordinate voting common shares (159,735 votes) through 810679 Ontario Limited and 96,568 subordinate voting common shares (96,568 votes) held personally by Mr. V. Prem Watsa, which equals 256,303 votes divided by 30,822,759 total votes. The 50.4% is calculated as 50,620 subordinate voting common shares (50,620 votes) plus 1,548,000 multiple voting common shares (15,480,000 votes) held through The Watsa Family Trust, 1109519 Ontario Limited and The Sixty Two Investment Company, which equals 15,530,620 votes divided by 30,822,750 total votes. [See note (8)]
(5) calculated as 306,923 subordinate common shares held (256,303 plus 50,620 [See (4)]) / 15,342,759 total subordinate voting common shares times $1,781,800,000 / $1,918,400,000 [See note (8)]
(6) 100.0% minus 12.9% (2) minus 51.2% (4)
(7) 100.0% minus 24.1% (3) minus 1.9% (5)
(8) common shares are publicly traded on the Toronto Stock Exchange in Canada and the New York Stock Exchange in the U.S. under the symbol "FFH". The Company has issued at 12/31/04 1,548,000 multiple voting common shares (which carry ten votes per share), 15,342,759 subordinate voting common shares (which carry one vote per share) and 8,000,000 non-voting preferred Series A shares. Total votes are 30,822,759, consisting of the 15,480,000 votes attributable to the multiple voting common shares and 15,342,759 votes attributable to the subordinate voting common shares. Fairfax's capital account at 12/31/04 totals $1,918,400,000 (U.S.) which consists of common shares totaling $1,781,800,000 (92.9% of the total) and preferred shares totaling $136,600,000 (7.1% of the total).
(9) 0% ownership and 0% voting control but entity holds non-voting preferred shares issued by Fairfax S.a.r.l.
(10) no entity or individual owns or controls greater than 10% as of 12/31/04, but as of 3/31/05, Goldman Sachs owned 1,800,176 subordinate voting common shares, which represented 5.8% voting control (1,800,176 divided by 30,822,750 total votes) and 10.9% ownership control (1,800,176 divided by 15,342,759 times $1,781,800,000 divided by $1,918,400,000).

It was noted during our review that the Company’s filed annual statement did not reflect the proper ownership percentages. Subsequent to the examination the error regarding ownership percentages was corrected. Voting percentages, however remain undisclosed and should be disclosed on the Holding Company chart. Therefore,

It is recommended that the Company properly disclose the Holding Company voting structure in the filed Annual statement (refer to summary of recommendations).

It was observed that Southeastern Asset Management had filed and received a disclaimer of control and exemption under Section 5003 (e) (2) regarding control of greater than 10% of the securities of FFH. This filing was accepted by the Delaware Department of Insurance on November 22, 2004. Southeastern Asset Management was identified in the 2004 Holding Company Registration Statement as controlling more than 10% of the voting stock of FFH [statement claimed 25% but actual was 12.9% voting control and 24.1% ownership control]. V. Prem Watsa, who had 51.2% voting control of FFH and 1.9% ownership control of FFH, was identified in the holding company registration statements for the years under examination as the “Chairman” of the ultimate controlling entity, FFH.

Subsequent to the examination date, another entity, Goldman Sachs, had amassed 5.8% voting control of FFH and 10.9% ownership control of FFH during the first quarter 2005.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2004, the Company was licensed to transact multiple property and casualty lines of insurance in 36 states and the District of Columbia.

Plan of Operation

The Company is a commercial property and casualty insurance company that targets specialty classes of business and overlooked market opportunities. The Company writes business through independent retail agents and brokers and national and wholesale brokers. The Company's underwriting strategy focuses on applying individual risk selection to business that requires greater underwriting expertise. The Company's principal lines of business include commercial auto, workers' compensation, general liability and fire and allied lines. Under terms of a pooling agreement, the Company (Pool member) cedes to USF (the Pool lead) all premiums and losses. The Company assumes 1% of all pooled business (see Reinsurance for more information).

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the period from the prior examination to December 31, 2004, and reflects changes made for the current examination:

Year	Net Written Premiums	Net Admitted Assets	Liabilities	Policyholder Surplus	Net Income
2000	$6,783,255	$31,402,509	$22,308,342	$9,094,167	$410,118
2001	4,896,637	30,893,857	22,251,074	8,642,783	(577,631)
2002	5,775,429	31,009,444	21,482,802	9,526,642	84,584
2003	7,805,100	32,842,793	23,133,917	9,708,876	228,720
2004	7,968,181	33,963,451	24,092,210	9,871,241	(752)

The growth over the examination period is noted as follows:

- A 17.5% increase in net written premiums
- An 8.2% increase in assets
- An 8.0% increase in liabilities
- An 8.5% increase in policyholder surplus
- A 100.2% decrease in net income

The Company reported net income of $(752) for 2004 compared to $410,118 for 2000. The decrease of $410,870 from 2000 to 2004 mainly reflects higher incurred losses, loss expenses and other underwriting expenses incurred. This market was soft during 2002 and there were severe losses in 2001 due to the September 11 attacks. The insurance market firmed up in 2003.

REINSURANCE

General

For 2004, the Company reported the following distribution of net written premiums:

Total Direct Written Premiums		$32,145,107
Assumed Affiliated Premium Written – Pool		9,668,513
Total Gross Premiums		$41,813,620
Ceded premiums		
Ceded to pool		$32,145,107
Ceded to third party		1,700,332
Total Ceded Premiums		$33,845,439
Net Written Premiums		$7,968,181

Percentage Ceded of Gross 81.0%

Assumed

The Company did not assume any third party business during the period under examination. The Company is a one percent member of a pool and all assumed business represents that assumption during the examination period.

Ceded

The Company is a 1% participant in a pool with its affiliates. Effective January 1, 2000, the Company and certain affiliates (Pool Participants) entered into a reinsurance participation agreement by which premiums, losses, dividends to policyholders and other underwriting expenses of each participant are pooled by means of mutual reinsurance on a fixed percentage basis as follows:

Pool Participants	
United States Fire Insurance Company	76%
The North River Insurance Company	22%
Crum and Forster Insurance Company	1%
Crum & Forster Indemnity Company	1%

The Agreement provides that USF, acting as lead Company, assumes from the Pool Participants 100% of their premiums, losses, dividends to policyholders and other underwriting expenses.

The Company purchases reinsurance to limit its exposure to loss from any one claim or occurrence (“per risk reinsurance“), and aggregate loss experience for an accident year that exceeds an amount the Company is willing to accept (corporate aggregate reinsurance). The Company’s corporate aggregate reinsurance contracts are the type most commonly referred to as “finite” reinsurance and cover or covered, in varying amounts and on varying terms, accident years 2002 and prior. No such reinsurance has been purchased for subsequent accident years.

As of the examination date the Company had the following significant reinsurance contracts:

Per risk

Line of Business	**Term**	**Layer/ Limit**	**Placement**	**Affiliate Participation**
Terrorism –Fairfax	1/1/04 - 12-31-04	a) 90% of Underwriting net loss excess of $98.3 million est (10% 2003 DEP) b) 90% of Underwriting Net loss excess of Fairfax Group deductible	100%	100% nSpire
Property Per risk XOL – 1st Layer	3/1/04 - 2/28/05	$3 million xs $2 million $15.0 million per occurrence Certified terror excluded reinstatements free & unlimited	100%	nSpire 7.5% Odyssey 5%
Property Per risk XOL – 2nd layer	3/1/04 - 2/28/05	$5 million xs $5 million $20.0 million per occurrence Certified terror excluded reinstatement. Free & unlimited	100%	nSpire 7.5% Odyssey 5%
Property Per risk XOL – 3rd layer	3/1/04 - 2/28/05	$15 million xs $10 million $30.0 million per occurrence Certified terror excluded Reinstatement 3 Free & 1 @ 100%	100%	nSpire 5%
Property Catastrophe – 1st Layer	5-1-04 - 4-30-05	$55 million xs $25 million Certified terror excluded Reinstatement, 1 @100%	97.50%	nSpire 13% Odyssey 6%
Property Catastrophe – 2nd Layer	5-1-04 - 4-30-05	$100 million xs $80 million Certified terror excluded Reinstatement: 1 @100%	97.50%	nSpire 10% Odyssey 5%
Property Catastrophe – 3rd Layer	5-1-04 - 4-30-05	$140 million xs $180 million Certified terror excluded Reins:1 @100%	97.50%	nSpire 10%
Umbrella Per risk XOL – 1st Layer	10-1-04 to 9-30-05	$2 million xs $1 million Cert. terror included 1 limit per occurrence, 2 limit aggregate	50%	nSpire 20%
Umbrella Per risk XOL – 2nd Layer	10-1-04 to 9-30-05	$7 million xs $3 million Cert. terror included 1 limit per occurrence, 2 limit aggregate	100%	nSpire 20% Odyssey 5%

Line of Business	**Term**	**Layer/ Limit**	**Placement**	**Affiliate Participation**
Umbrella Per risk XOL – 3rd Layer	10-1-04 to 9-30-05	$15 million xs $10 million Cert. terror included 1 limit per occurrence, 2 limit aggregate	100%	nSpire 20% Odyssey 5%
Workers Comp XOL - 1st layer	4-1-04 - 3-31-05	$3 million xs $2 million Terror, Cert. / Non Cert. Max terror unlimited Reinstatement Free & unlimited	75%	nSpire 25%
Workers Comp XOL - 2nd layer	4-1-04 – 3-31-05	$5 million xs $5 million Terror, Cert. / Non Cert. Max terror $10 million Reinstatement Free & unlimited	90%	
Workers Comp XOL - 1st layer Cat.	4-1-04 – 3-31-05	$10 million xs $10 million Terror, Cert. / Non Cert Max terror $10 million Reinstatement 1 Free, Max limit $10 million	100%	nSpire 5%
Workers Comp XOL - 2nd layer Cat.	4-1-04 – 3-31-05	$30 million xs $20 million Terror, Cert. / Non Cert. Max terror $30 million Reins. 1 @ 100%Max limit $10 million	100%	
Workers Comp XOL - 3rd layer Cat.	4-1-04 – 3-31-05	$50 million xs $50 million Terror, Cert. / Non Cert. Max terror $50 million Reinstatement 1 @ 100% Max limit $10 million	100%	nSpire 5%
Workers Comp XOL - 4th layer Cat.	4-1-04 – 3-31-05	$100 million xs $100 million Terror, Non Cert. Reinstatement 1 @ 100%Max limit $5 million	100%	nSpire 2.5%
Surety - Variable Q/S	5-1-04 – 4-30-05	$35 million Certified terror exclusion	100% nSpire	100% nSpire
Surety XOL	5-1-04 – 4-30-05	$7.5 million xs $7.5 million ($22.5 aggregate) Certified Terror exclusion reinstatements: 2 @ 100%	90%	nSpire

Line of Business	**Term**	**Layer/ Limit**	**Placement**	**Affiliate Participation**
Mgmt Protection Excess Risk Q/S	6-1-04 – 5-31-05	$0.0 - $5 million 60/40 $5.0 - $10 million 80/20 NO terror exclusion	100%	nSpire
Mgmt Protection Primary Risks EOL	6-1-04 – 5-31-05	$8.0 million xs $2.0 million No terror exclusion	100%	nSpire
Fidelity Q/S	6-1-04 to continuous	Q/S up to $5 million No terror exclusion	80%	

Corporate Aggregate

As of the examination date, the Pool Participants have one prospective contract covering accident year 2002 with an unused limit of $96.3 million for the Pool Participants, in the event the net loss and LAE ratio for accident year 2002 before the effect of the contract exceeds 70%. The subject loss and LAE ratio as valued at examination date was 63.2%. The reinsurer is an affiliate, nSpire, a wholly owned subsidiary of FFH.

Finite

The Pool Participants entered into an aggregate stop loss agreement with an unaffiliated reinsurer covering accident year 2000, which provided coverage of $118,493,000 and has been fully utilized by the Pool Participants as of December 31, 2004. Premiums and losses ceded pursuant to the contract were $7,595,000 and $9,994,000, respectively, in 2004 and there were no cessions in 2003 and 2002. Premium cessions, on a funds withheld basis in 2001, were $68,758,000. As of December 31, 2004 and 2003, the Pool Participants have reinsurance recoverable balances of $76,547,000 and $108,499,000, respectively. The Company's ceded premiums, losses and recoverable balances represent its 1% share of the pool balances stated above.

In June 2002, the Pool Participants entered into an adverse development contract, effective September 30, 2001 with North American Specialty Insurance Company, a subsidiary of Swiss Reinsurance America Corporation. The contract provides $400,000,000 of reinsurance coverage for accident years 2000 and prior for all lines of business. As of the examination date, the Pool Participants have ceded the following:

	Losses	Premiums
2004	$140,565,000	$58,056,000
2003	10,446,000	3,656,000
2002	10,000,000	3,500,000
2001	210,000,000	84,786,000
Totals	371,011,000	149,998,000

The Company's ceded losses and premiums represent its 1% share of the pool ceded losses and premiums in the table above. The coverage remaining on this treaty is $28,989,000 and is available for asbestos development for the Pool Participants.

In June 2002, the Pool Participants entered into an adverse development contract, effective September 30, 2001 with Inter-Ocean Reinsurance Company, Ltd. (Inter-Ocean), a Bermuda insurer. The contract provides $100,000,000 of coverage, for carried reserves as at March 31, 2001, for accident periods August 13, 1998 and prior. Coverage varies for specific classes of losses and is subject to sub-limits. As of the examination date, the Pool Participants have ceded $ 65,249,000 in losses and incurred premium costs of $32,596,000. None of the remaining coverage on this treaty is available for asbestos development. The Company's ceded losses and premiums represent its 1% share of the pool ceded losses and premiums stated above.

In 1998, in connection with the acquisition of the Company by FFH, the Pool Participants entered into an aggregate stop-loss agreement with Inter-Ocean, which provides coverage of $367,500,000 and has been fully utilized by the Pool Participants. This contract provided coverage for loss reserve development for August 13, 1998 and prior, the date of the acquisition of the Company by Fairfax. The Company amended the contract in 2001 to provide additional coverage of $19,248,000, which has been fully utilized by the Pool Participants.

The arrangements described above with North American Specialty Insurance Company and Inter-Ocean are recorded as retroactive reinsurance, as outlined in SSAP No. 62 (please see Notes to Financial Statements for more information) .

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained in Morristown, New Jersey, various branch offices throughout the United States, and Livingston, New Jersey. The Company utilizes a third party data center in Livingston, New Jersey for processing, updating and storing primary records in a mainframe environment.

A high level assessment of internal control structure and process for the Company's accounting and computer systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance. The discussions and review did not reveal any material deficiencies in the Company's internal control structure.

An external accounting firm audits the statutory-basis financial statements of the Company annually. The Company's external firm reviewed the internal control structure in order to establish the necessary audit procedures required to express an opinion on the December 31, 2004 financial statements. No significant or qualifying deficiencies were found to exist in the design or operation of the internal control structure.

Based on the examination review of the filed Annual Statement, observations, and subsequent discussions with management, the accounting systems and procedures generally conform to insurance accounting practices and requirements.

FINANCIAL STATEMENTS

The following financial statements as determined by this examination are presented herein:

Analysis of Assets as of December 31, 2004
Liabilities, Surplus and Other Funds as of December 31, 2004
Underwriting and Investment Exhibit - Statement of Income, 2004
Capital and Surplus Account for the one-year period ending December 31, 2004

Analysis of Assets
As of December 31, 2004

Assets	Assets	Non-Admitted Assets	Net Admitted Assets	Note
Bonds	$17,512,324		$17,512,324	(1)
Cash on hand and on deposit and short-term investments	11,973,504		11,973,504	(2)
Investment income due and accrued	259,673		259,673	
Premiums and agents balances in course of collection	774,028	$59,864	714,164	
Premiums, agents balances and installments, booked but deferred and not yet due	908,174	16,932	891,242	
Accrued retrospective premium	748,110	94,227	653,883	
Amounts recoverable from reinsurers	514,822		514,822	
Current federal and foreign income tax recoverable	82,289		82,289	
Net deferred tax asset	1,493,606	564,013	929,593	
Guaranty funds receivable on deposit	92,345		92,345	
Electronic data processing equipment	1,437		1,437	
Furniture and equipment	10,564	10,564	0	
Other assets non admitted	32,816	32,816	0	
Aggregate write-ins for other than invested assets	542,326	204,151	338,175	
Totals	$34,946,018	$982,567	$33,963,451	

Liabilities, Surplus and Other Funds
As of December 31, 2004

		Note
Losses	$16,510,546	(3)
Reinsurance payable on paid loss and loss adjustment expenses	61,463	
Loss adjustment expenses	6,340,372	(3)
Commissions payable	94,238	
Other expenses	277,617	
Taxes, licenses and fees	274,071	
Unearned premiums	4,211,460	
Dividends declared and unpaid: Policyholders	12,751	
Ceded reinsurance premiums payable	297,829	
Funds held by company under reinsurance treaties	2,771,544	
Amounts withheld or retained by company for account of others	656,699	
Provision for reinsurance	156,596	
Payable to affiliates	95,777	
Aggregate write-ins for liabilities	(7,668,753)	(4)
Total liabilities	$24,092,210	
Aggregate write-ins for special surplus funds	$ 5,634,508	(5)
Common capital stock	3,500,000	
Gross paid in and contributed surplus	2,750,000	
Unassigned funds	(2,013,267)	
Surplus as regards policyholders	$9,871,241	
Total	$33,963,451	

Underwriting and Investment Exhibit: Statement of Income
For the Year Ended December 31, 2004

		Note
Underwriting Income		
Premiums earned	$7,903,858	
Deductions:		
Losses incurred	$5,127,121	
Loss expenses incurred	1,947,462	
Other underwriting expenses incurred	2,137,778	
Total underwriting deductions	$9,212,361	
Net underwriting gain or (loss)	$(1,308,503)	
Investment Income		
Net investment income earned	$717,269	
Net realized capital gains or (losses)	247,662	
Net investment gain or (loss)	$964,931	
Other Income		
Net gain or (loss) from agents balances charged off	326,923	
Net income before federal income taxes	$(16,649)	
Federal income taxes incurred	(15,897)	
Net Income	$(752)	

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2003	$9,708,876
Net income	$(752)
Change in net deferred income tax	35,361
Change in non-admitted assets	84,149
Change in provision for reinsurance	43,607
Change in surplus as regards policyholders for the year	$162,365
Surplus as regards policyholders, December 31, 2004	$9,871,241

EXAMINATION ADJUSTMENTS

No financial adjustments made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1
Bonds $17,512,324

Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. Bonds owned by the Company are as follows:

US Government	$16,292,382
States, Territories and Possessions	318,534
Political subdivisions	300,585
Special Revenue	600,823
Total	$17,512,324

Bonds are designated by the SVO with the highest quality being "1" and lowest being "6". All of the Company held bonds are rated as 1. Bonds with carrying values of $7,842,602 were on deposit with various states or governmental insurance departments in compliance with insurance laws.

Note 2
Cash on hand and Short-term Investments $11,973,504

Cash equivalents of $11,948,355 represent 99.8% of the total. They are United States Treasury bills acquired in December 2004 and mature in January 2005.

Note 3
Loss Reserves $16,510,546
Loss Adjustment Expense Reserves $6,340,372

Loss and loss adjustment expense reserves represent 95.0% of the Company's liabilities as of December 31, 2004. Incurred but not reported reserves (IBNR) constituted 32% of loss reserves at year-end 2004.

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for loss and allocated loss adjustment expenses. The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross basis and net of reinsurance and did not address the collectibility of reinsurance recoverables. The INS reserve review found the Company's combined net loss and loss adjustment expense reserves were adequate to support the business underwritten.

The underlying data was tested through a review of open and paid claim files and actual payments made with no exceptions noted. The aggregated actuarial data provided by the Company was verified and reconciled to Schedule P of the Company's filed annual statement.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report. As a result of this study, the reserves were accepted.

Note 4
Aggregate write-ins for liabilities $(7,668,753)

The major component included in the aggregate write-in line is:

Retroactive Reinsurance reserve ceded $(8,230,080)

This amount is the Company's portion of pooled balances for finite cessions recorded as retroactive reinsurance as outlined in SSAP No. 62.

Note 5
Special Surplus Funds $ 5,634,508

Amounts ceded under retroactive contracts are recognized as to premiums, as other expenses incurred and, as to losses, as a reduction of other expenses incurred and other liabilities. Losses ceded in excess of premiums paid are recorded as restricted surplus until losses in excess of premiums paid are recovered. The special surplus funds increased from the prior year amount by $628,369 as a result of retroactive cessions for unpaid losses in excess of premium costs.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The prior examination report was prepared by The New York Insurance Department as of December 31, 2000. No recommendations or comments were made in connection with that examination.

SUMMARY OF RECOMMENDATIONS

(1) It was noted during our review that the Company's filed annual statement did not have an accurate holding company chart. Therefore,

> **It is recommended that the Company properly disclose the Holding Company structure in the filed Annual statement (refer to Holding Company section). (p. 13)**

CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2004, was determined as follows:

Description	12/31/04 Current Examination	12/31/00 Prior Examination	Changes Increase (Decrease)
Assets	$33,963,451	$31,402,509	$2,560,942
Liabilities	$24,092,210	$26,104,342	$(2,012,132)
Special surplus funds	$5,634,508	3,543,786	$2,090,722
Common capital stock	3,500,000	$3,500,000	-0-
Gross paid in and contributed capital	2,750,000	2,750,000	-0-
Unassigned funds (surplus)	(2,013,267)	(4,495,619)	2,482,352
Total surplus as regards policyholders	$9,871,241	$5,298,167	$4,573,074
Totals	$33,963,451	$31,402,509	$2,560,942

Since the last examination, the Company's assets have increased $2,560,942; liabilities have decreased $2,012,132 and capital and surplus has increased $4,573,074. In addition to the undersigned, acknowledgment is made of the assistance provided by the Delaware Insurance Department's consulting actuarial firm, INS Consultants, Inc.

Respectfully submitted,

Anthony C. Cardone

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Examiner-in-Charge
State of Delaware
Northeastern Zone, NAIC